Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Partners Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, and comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Partners Real Estate Investment Trust as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 30, 2014
Vancouver, Canada

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PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Financial Position
audited (Cdn $)

As at	**December 31, 2013**	December 31, 2012
ASSETS		
Non-current assets		
Income producing properties (Note 4)	**$ 588,391,005**	$ 465,727,634
	588,391,005	465,727,634
Current assets		
Note receivable (Note 5)	**-**	5,935,813
Other assets (Note 6)	**4,514,391**	4,108,577
Accounts receivable (Note 7)	**2,722,641**	1,443,134
Cash	**-**	1,853,630
	7,237,032	13,341,154
	$ 595,628,037	$ 479,068,788
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 8)	**$ 250,046,544**	$ 215,528,319
Convertible debentures (Note 9)	**82,352,601**	60,718,110
Credit facilities (Note 10)	**30,795,803**	-
	363,194,948	276,246,429
Current liabilities		
Mortgages payable (Note 8)	**34,104,016**	10,911,228
Credit facilities (Note 10)	**-**	7,277,940
Accounts payable and other liabilities	**11,378,767**	11,132,105
Distributions payable	**1,094,156**	1,208,437
Bank indebtedness	**134,868**	-
	46,711,807	30,529,710
	409,906,755	306,776,139
Exchangeable LP units (Note 11)	**842,625**	2,228,125
	410,749,380	309,004,264
UNITHOLDERS' EQUITY	**184,878,657**	170,064,524
	$ 595,628,037	$ 479,068,788

Subsequent Events (Note 24)

The accompanying notes are an integral part of these consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Comprehensive Income

audited (Cdn $)

	Year ended December 31, **2013**	2012
Revenues from income producing properties (Note 12)	**$ 56,567,180**	$ 43,045,555
Property operating expenses	**(8,795,762)**	(6,143,431)
Realty taxes	**(11,950,878)**	(8,635,043)
Property management fees	**(1,055,228)**	(816,133)
	34,765,312	27,450,948
Other expenses:		
Financing costs	**19,413,937**	14,017,064
General and administrative expenses	**3,486,120**	2,379,995
Other transaction costs (Note 13)	**3,345,704**	448,444
	26,245,761	16,845,503
Income before fair value gains	**8,519,551**	10,605,445
Fair value gains (losses) (Note 14)	**(4,324,330)**	17,218,533
Net income and comprehensive income	**$ 4,195,221**	$ 27,823,978
EARNINGS PER UNIT (Note 15)		
Basic	**$ 0.16**	$ 1.45
Diluted	**$ 0.15**	$ 1.33

The accompanying notes are an integral part of these consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity

audited (Cdn $)

	Year ended December 31, 2013	2012
Trust Units (Note 16)		
BALANCE, BEGINNING OF PERIOD	**$ 168,392,882**	$ 70,108,603
Issuance of units for exchangeable LP units, net of costs	**906,885**	-
Issuance of units under distribution reinvestment plan, net of costs	**1,168,798**	657,265
Issuance of units under rights certificates, net of costs	**-**	2,157,826
Issuance of units under incentive unit option plan	**-**	92,250
Issuance of units under alternate compensation plan (Note 18)	**64,900**	51,002
Issuance of units under private offering, net of costs	**-**	47,882,820
Issuance of units under public offering, net of costs	**24,457,887**	42,653,187
Issuance of units under warrant exercise, net of costs	**-**	4,789,929
BALANCE, END OF PERIOD	**194,991,352**	168,392,882
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	**565,080**	569,830
Cost of units issued under incentive unit option plan	**-**	(4,750)
BALANCE, END OF PERIOD	**565,080**	565,080
Accumulated Other Comprehensive Income (Loss)		
BALANCE, BEGINNING OF PERIOD	**1,106,562**	(14,272,059)
Net income and comprehensive income	**4,195,221**	27,823,978
Distributions to unitholders (Note 16)	**(15,979,558)**	(12,445,357)
BALANCE, END OF PERIOD	**(10,677,775)**	1,106,562
TOTAL UNITHOLDERS' EQUITY	**$ 184,878,657**	$ 170,064,524
DISTRIBUTIONS PER UNIT	**$ 0.62**	$ 0.64

The accompanying notes are an integral part of these consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows
audited (Cdn $)

	Year ended December 31, 2013	2012
OPERATING ACTIVITIES		
Net income and comprehensive income	**$ 4,195,221**	$ 27,823,978
Adjusted for non-cash items:		
Fair value (gains) losses (Note 14)	**4,324,330**	(17,218,533)
Employee options costs (Note 18(a))	**40,000**	107,000
Alternate compensation plan costs (Note 18(b))	**64,900**	51,002
Straight-line rent	**(1,968,009)**	(1,211,125)
Amortization of tenant incentives and direct leasing costs	**502,072**	573,340
Amortization of deferred financing costs	**1,861,735**	1,398,506
Market interest rate adjustment on mortgages	**(943,679)**	(761,165)
Interest accretion expense	**670,129**	54,789
Net change in working capital (Note 17)	**(1,489,328)**	5,510,688
Cash flow provided by operating activities	**7,257,371**	16,328,480
FINANCING ACTIVITIES		
Proceeds from mortgages	**46,400,000**	82,200,000
Financing costs of mortgages	**(511,480)**	(799,621)
Principal repayments on mortgages	**(11,631,761)**	(22,847,799)
Proceeds from debenture issuance	**23,000,000**	34,500,000
Cost to issue debentures	**(1,172,295)**	(1,683,496)
Drawdowns on credit facilities	**59,000,000**	21,500,000
Repayments of credit facilities	**(35,500,000)**	(33,200,000)
Financing fees on credit facilities	**(479,865)**	(457,822)
Proceeds from private offering	**-**	40,317,346
Proceeds from public offering (Note 16)	**25,900,875**	45,704,571
Costs to issue units (Note 16)	**(1,485,852)**	(5,234,314)
Proceeds from incentive unit option plan issuance	**-**	87,500
Warrant exercise	**-**	5,031,250
Distributions to unitholders	**(14,783,011)**	(11,769,231)
Cash flow provided by financing activities	**88,736,611**	153,348,384
INVESTING ACTIVITIES		
Acquisitions of income producing properties, net of non-cash transactions	**(96,194,658)**	(169,886,159)
Improvements to income producing properties	**(6,652,911)**	(4,783,058)
Expenditures on tenant incentives and direct leasing costs	**(1,070,725)**	(1,706,635)
Net proceeds from repayment of note receivable	**5,935,814**	2,200,149
Net proceeds from notes receivable dispositions	**-**	4,509,700
Cash flow used in investing activities	**(97,982,480)**	(169,666,003)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	**(1,988,498)**	10,861
CASH, BEGINNING OF PERIOD	**1,853,630**	1,842,769
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$ (134,868)**	$ 1,853,630
Non-cash transactions		
Secured debt assumed with acquistion of properties	**$ 22,872,965**	$ 9,592,708
Market interest rate adjustment on assumed debt	**1,100,005**	2,146,882

Supplemental cash flow information (Note 17)

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on April 8, 2013. The address of its registered office and principal place of business is 158 Dunlop Street East, Suite 101, Barrie, Ontario, L4M 1B1. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT are listed on the Toronto Stock Exchange as of April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies that are used in the preparation of these consolidated financial statements:

(a) *Statement of compliance*

These consolidated financial statements were approved and authorized for issue by the Board of Trustees on March 30, 2014.

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs").

(b) *Basis of presentation*

The financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value (as discussed in Note 2(d) and Note 2(g)). The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 3.

(c) *Basis of consolidation*

IFRS 10 *Consolidated Financial Statements* replaces SIC-12 *Consolidation – Special Purpose Entities,* and certain parts of IAS 27 *Consolidated and Separate Financial Statements.* IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee. To identify control IFRS 10 employs a test of power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns.

The adoption of IFRS 10 does not change the REIT's conclusions around control of its investees, and therefore no adjustments to previous accounting for investees are required in the consolidated financial statements.

(d) Income producing properties

Income producing properties fall within the definition of investment properties under IAS 40 – *Investment Properties* ("IAS 40") and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties.

Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly, should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), improvement of the properties and market interest rate adjustments on assumed debt. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

Subsequent to initial recognition, income producing properties are measured at fair value, determined based on valuations performed by third-party appraisers or available market evidence in accordance with IAS 40. Gains or losses arising from changes in the fair value of income producing properties are included in net income in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.

Income producing properties are reclassified to assets held for sale when criteria set out in IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* are met.

An income producing property is derecognized upon disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(e) Income Taxes

The Income Tax Act (Canada) (the "Tax Act") levies tax on certain trusts and partnerships that are "specified investment flow-through entities" ("SIFTs") in defined circumstances with an exemption for entities that qualify as "real estate investment trusts". A trust that meets prescribed conditions to qualify as a "real estate investment trust" under the Tax Act is not subject to the tax on SIFTs. The REIT's management has determined that the REIT met all the prescribed conditions to qualify as a "real estate investment trust" and as a mutual fund trust ("MFT") under the Tax Act throughout the year. The REIT intends to continue to operate in a manner so as to qualify as a "real estate investment trust" and as an MFT.

The REIT intends to distribute all of its taxable income to unitholders and to deduct such distributions for income tax purposes. Canadian income tax obligations relating to distributions of the REIT are the obligations of the unitholders. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

Charter Realty Holdings Ltd. (the "Company") is the REIT's wholly-owned incorporated subsidiary and is subject to tax on its taxable income. Current tax payable is based on taxable income for the year, as defined by the Tax Act. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to apply against the temporary differences that can be utilized.

(f) Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its income producing properties and therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased assets. Generally, this occurs on the lease inception date or, when the REIT is required to make additions to the property in the form of tenant improvements which enhances the value of the property, when substantially complete. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. A straight-line rent receivable is included in the carrying amount of the income producing property and is recorded for the difference between the rental revenue recorded and the contractual amount received. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including realty taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(g) Financial instruments

Financial assets and financial liabilities are recognized when the REIT becomes a party to the contractual provisions of the instrument.

In accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"), financial instruments and derivatives are initially measured at fair value. Financial instruments and derivatives are presented and disclosed in accordance with IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7") and IAS 32 – *Financial Instruments: Presentation* ("IAS 32"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"); 'held to maturity' investments; 'available-for-sale' financial assets; and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the REIT has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available for sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as: loans and receivables; held-to-maturity investments; or financial assets at FVTPL. AFS financial assets are measured at fair value, with any fair value changes recognized in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts receivables, cash, and other assets including amounts held in escrow) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortized cost of an instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, (or, where appropriate a shorter period) to the net carrying amount on initial recognition.

Partners REIT's financial assets

The following summarizes the REIT's classification and measurement of its financial assets:

Financial asset	Classification	Measurement
Note receivable	Available for sale	Fair value
Other assets	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The REIT derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the REIT are recognized at the proceeds received, net of direct issue costs. Repurchase of the REIT's own equity instruments is recognized and deducted directly in contributed surplus. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the REIT's own equity instruments. Distributions paid on the REIT's equity instruments subsequent to, declared prior to, and with a record date at or prior to the reporting date, are recorded as a liability.

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest basis.

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, (or where appropriate a shorter period), to the net carrying amount on initial recognition.

These transaction costs are presented net of the financial liability when there is a balance; otherwise they are presented as a financial asset.

Partners REIT financial liabilities

The following summarizes the REIT's classification and measurement of its financial liabilities:

Financial liability	Classification	Measurement
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and other liabilities – Trade and other payables	Other financial liabilities	Amortized cost
Accounts payable and other liabilities - Deferred unit-based compensation	FVTPL	Fair value
Distributions payable	Other financial liabilities	Amortized cost
Exchangeable LP units	FVTPL	Fair value
Embedded derivatives	FVTPL	Fair value
Credit facilities	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost

The REIT derecognizes a financial liability when, and only when, the REIT's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

(h) Deferred unit-based compensation

Deferred unit-based payments, in the form of options to purchase units at a future date with a fixed price issued to employees, trustees and certain contractors, are measured at the fair value of the option at the grant date, which is calculated using an option valuation model. It is recognized over the vesting period to compensation expense using the graded vesting method.

The fair value of the options is categorized as a liability in accounts payable and other liabilities on the consolidated statements of financial position and remeasured at the end of each reporting period until settlement. Changes to the fair value are recognized in profit or loss such that the cumulative expense reflects the amount amortized to date over the vesting period if the amortized amount was otherwise re-calculated at the end of the reporting period.

(i) Provisions

Provisions are recognized when the REIT has a present obligation (legal or constructive) as a result of a past event, it is probable that the REIT will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(j) Critical judgment in applying accounting policies

i. Income producing properties

The REIT's accounting policy relating to income producing properties is described in Note 2(d) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the REIT's investment property. Judgment is also applied in determining whether certain costs are additions to the carrying amount of the property and, for property under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable costs to be included in the carrying value of the development property. In addition, judgment is also applied to assess whether the acquisition of property through the purchase of a corporate vehicle or directly should be accounted for as an asset acquisition or a business combination.

ii. Leases

The REIT's policy for property rental revenue recognition is described in Note 2(f) above. Where the REIT is the lessor, the REIT makes judgments in determining whether certain leases, in particular leases to anchor tenants, are considered operating or finance leases. The REIT has determined that all of its leases are operating leases.

iii. Financial instruments

The REIT's accounting policies relating to financial instruments are described in Note 2(g). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments into categories and to determine the identification of embedded derivatives in certain hybrid instruments that are subject to fair value measurement.

(k) Key accounting estimates and assumptions

The REIT makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the year. Actual results could materially differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

i. Income producing properties

The choice of valuation method to determine the fair value of the REIT's income producing properties and the critical estimates and assumptions underlying the fair value determination of its commercial retail properties are set out in Note 4. Significant estimates used in determining the fair value of the REIT's income producing properties includes capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates, standard costs). A change to any one of these inputs could significantly alter the fair value of an income producing property.

ii. Financial liabilities at FVTPL

The fair valuation of embedded derivatives and deferred unit-based compensation employs pricing models. The models require estimates and assumptions to be made with regard to the models' inputs, such as, the underlying asset volatility, risk free rates, employee exit rates and option holder's risk aversion, as applicable. Changes in assumptions about these factors could affect the reported fair value of the financial liability. Fair values are most sensitive to change in asset volatility. The following table demonstrates the change in fair value of the convertible feature of the debenture and deferred unit-based compensation based on a change in the trading price of the REIT's units as at December 31, 2013:

	Change in volatility	
As at December 31, 2013	-1%	+1%
Convertible feature of debenture	$ (20,000)	$ 30,000
Deferred unit-based compensation	(5,000)	5,000

(l) Changes in accounting policies

The REIT has applied, for the first time, new accounting policies due to the adoption of new standards and amendments to existing standards. The nature and impact of the new standards and amendments are described below:

i. IFRS 10, Consolidated Financial Statements

IFRS 10 replaces IAS 27, "Consolidated and Separate Financial Statements" and establishes a single model for consolidation based on control. Under IFRS 10 the definition of control is met when an investor is exposed to variable returns and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (1) an investor has power over an investee; (2) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (3) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of the REIT's interests in its investments.

ii. IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31, "Interests in Joint Ventures" ("IAS 31"). IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the consolidation of the REIT's interests in its investments.

iii. IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 had no impact on the REIT's consolidated financial statements.

iv. IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and related disclosures. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the REIT's fair value measurements. Additional disclosures required by IFRS 13 have been added in the notes to the consolidated financial statements.

v. Amendment to IAS 1, Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to income or loss at a future point in time are to be presented separately from items that will never be reclassified. The amendment had no impact on the REIT's financial position or performance.

vi. Amendment to IAS 1, Clarification of the requirement for comparative information

Amendments to IAS 1 require that an opening balance sheet must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the balance sheet at the beginning of the preceding period. The amendment had no impact on the REIT's consolidated financial statements.

vii. Amendment to IFRS 7, Disclosures - offsetting financial assets and financial liabilities

Amendments to IFRS 7 require disclosure of information about the rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. These amendments had no impact on the REIT's disclosures.

(m) Comparative information

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. FUTURE ACCOUNTING POLICIES

From time to time, the International Accounting Standards Board ("IASB") issues new accounting standards and revises existing accounting standards. The following standards, not yet effective as at the date of these consolidated financial statements and accordingly not applied to these consolidated financial statements, may have a future impact:

Financial instruments classification and measurement

IFRS 9 – *Financial Instruments: Classification and measurement* ("IFRS 9") was issued by the IASB in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains or losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income. The date of application of IFRS 9 has not yet been determined. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Financial instruments presentation

IAS 32 – *Financial Instruments: Presentation* ("IAS 32") was amended by the IASB in December 2011 to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The amendments to IAS 32 are to be applied retrospectively for periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of IAS 32 on its consolidated financial statements.

Levies

IFRIC 21 – *Levies ("IFRIC 21")* provides clarification regarding the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. This interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain. IFRIC 21 is applicable for periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of IFRIC 21 on its consolidated financial statements.

4. INCOME PRODUCING PROPERTIES

As at		**December 31, 2013**		December 31, 2012
Balance, beginning of year	**$**	**465,727,634**	$	258,510,224
Acquisitions of income producing properties		**120,167,628**		181,625,751
Improvements to income producing properties		**6,652,911**		4,783,058
Expenditures on tenant incentives and direct leasing costs		**1,070,725**		1,706,635
Amortization of tenant incentives and direct leasing costs		**(502,072)**		(573,340)
Recognition of straight-line rent		**1,968,009**		1,211,125
Fair value gains (losses)		**(6,693,830)**		18,464,181
Balance, end of period	**$**	**588,391,005**	$	465,727,634

Income producing properties, which are classified as investment properties under IFRS, are appraised at fair value by qualified external valuation professionals ("Appraisers") in accordance with IAS 40 – *Investment Properties*. The Appraisers are independent valuation firms, not related to the REIT, that employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des évaluateurs agréés du Québec, and who have appropriate qualifications and experience in the valuation of properties in the relevant locations.

For the year ended December 31, 2013, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of $185.7 million, representing 31.6% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs. The value of the remainder of the REIT's income producing property portfolio is determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

At December 31, 2012, external appraisals were obtained for eleven of the REIT's properties with an aggregate fair value of $130.2 million, representing 28.0% of the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's income producing property portfolio was determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

The external valuation of the income producing properties utilized the "Direct Capitalization" method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and the present value of capital expenditures. Fair values are most sensitive to change in capitalization rates.

The following table outlines the range and weighted average of the capitalization rates applied to the stabilized net operating income in estimating the fair value for the REIT's properties:

As at	**December 31, 2013**	December 31, 2012
Capitalization rates		
Maximum	**8.25%**	8.50%
Minimum	**6.00%**	6.25%
Weighted Average	**6.47%**	6.73%

At December 31, 2013, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $42.0 million (December 31, 2012 - $32.2 million) and a 0.50% decrease in capitalization rates would increase fair value by $49.0 million (December 31, 2012 - $37.4 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at December 31, 2013, income producing properties included $4.6 million (at December 31, 2012 - $2.7 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

2013 acquisitions

- *Cobblestone Shopping Centre*

On August 19, 2013, the REIT completed the acquisition of Cobblestone Shopping Centre, a three-building 42,980 square foot shopping centre located in Grand Prairie, Alberta. The REIT paid $16.5 million for the property, funded by a combination of assumed and new mortgages totaling $11.3 million and cash on hand drawn from the REIT's Credit Facility. The new and assumed mortgages bear a combined effective rate of interest of 4.03%. In connection with the acquisition, the vendor has also agreed to compensate the REIT for the above-market rate of the assumed mortgage by providing a monthly reimbursement of $9,850 for the remaining term of the assumed mortgage.

- *Repentigny Shopping Centre*

On May 1, 2013, the REIT completed the acquisition of Repentigny Shopping Centre, an existing 49,371 square foot open-air shopping centre and office space located in Repentigny, Québec. The REIT paid $9.7 million for the property, funded by a new five-year $5.7 million mortgage fixed at 3.34% for a five year term and cash on hand drawn from the REIT's Credit Facility.

- *Marcel-Laurin Shopping Centre*

On May 1, 2013, the REIT completed the acquisition of Marcel-Laurin Shopping Centre, an existing 122,063 square foot shopping centre with office space located in Montreal, Québec. The REIT paid approximately $35.9 million for the property, funded by a new ten-year $22.0 million mortgage bearing interest at 3.84% and cash on hand drawn from the REIT's Credit Facility.

- *Mariner Square Shopping Centre*

On April 15, 2013, the REIT completed the acquisition of Mariner Square Shopping Centre, an existing six building 100,245 square foot open-air shopping centre located in Campbell River, British Columbia. The REIT paid $25.9 million for the property, funded by the assumption of a $14.6 million mortgage bearing interest at 5.74% with a remaining term to maturity of five years. The balance of the acquisition cost was paid from cash drawn from the REIT's Credit Facility. An above market interest rate adjustment of $1.1 million has been included in the total cost of this acquisition.

- *Sorel Shopping Centre*

On March 15, 2013, the REIT completed the acquisition of Sorel Shopping Centre, a newly-constructed, 31,776 square foot open-air property, located in the Montreal suburb of Sorel-Tracy, Québec. The REIT paid approximately $9.2 million for the property, funded by a $4.2 million mortgage fixed at 3.70% with the balance paid in cash drawn from the REIT's Credit Facility.

- *Saint Remi Shopping Centre*

On March 15, 2013, the REIT completed the acquisition of Saint Remi Shopping Centre, a newly-constructed, 62,522 square foot open-air retail property located in the Montreal suburb of Saint Remi, Québec. The REIT paid approximately $19.4 million for the property, funded by an $11.6 million mortgage fixed at 3.72%, $5.3 paid in cash drawn from the REIT's Credit Facility and the remaining balance to be settled at the earlier of either the REIT entering into a future lease agreement with a specific tenant or March 2015.

2012 acquisitions

- *Centre Village Shopping Centre*

On December 21, 2012, the REIT completed the acquisition of Centre Village Shopping Centre, a 96,633 square foot retail property located in Montreal, Quebec. The REIT paid approximately $20.0 million for the property, utilizing $6.75 million of the REIT's credit facility.

- *Elgar Place*

On December 21, 2012, the REIT completed the acquisition of Elgar Place, a 10,120 square foot retail centre located in Montreal, Quebec. The REIT paid approximately $2.0 million for the property, utilizing $0.75 million of the REIT's credit facility.

- *Timmins West Power Centre*

On December 20, 2012, the REIT completed the acquisition of Timmins West Power Centre, a 43,774 square foot open-air retail centre which includes three separate buildings. The REIT paid approximately $10.0 million for the property, funded by the assumption of a first mortgage for $4.94 million with an effective interest rate of approximately 4%, with the balance in cash. An above market interest rate adjustment of $0.2 million has been included in the determination of the total cost of this acquisition.

- *Washington Park Shopping Centre*

On June 15, 2012, the REIT completed the acquisition of Washington Park Shopping Centre, a two building 32,652 square foot open-air shopping centre located in Courtenay, British Columbia. The REIT paid $11.95 million for the property and was funded by a $7.5 million mortgage with interest at 3.84% over a 5-year term. The balance was paid with cash proceeds from a bought deal equity offering.

- *Grand Bend Towne Centre*

On April 30, 2012, the REIT completed the acquisition of Grand Bend Towne Centre, an existing 41,605 square foot shopping centre located in Grand Bend, Ontario. The REIT paid approximately $7.9 million for the property and was funded by the assumption of an existing mortgage on the property in the amount of $3.2 million, which was further increased by $0.8 million for a total mortgage of $4.0 million. The mortgage matures in July 2017 and has a contractual rate of interest of 5.12% per annum. The balance of the acquisition was paid from the REIT's available funds on hand. An above market interest rate adjustment of $0.2 million has been included in the determination of the total cost of this acquisition.

- *Quinte Crossroads*

On March 29, 2012, the REIT completed the acquisition of Quinte Crossroads, a new development consisting of an 85,192 square foot four building power centre on 14.26 acres, in Belleville, Ontario. The REIT paid approximately $21.3 million for the property with $14.2 million funded through a new ten-year mortgage that bears interest at 4.06% per annum, and the balance was paid with available cash on hand.

- *King George Square*

On February 14, 2012, the REIT completed the acquisition of King George Square, an existing 66,983 square foot open-air centre comprised of three buildings and located on the west side of King George Road which traverses Brantford, Ontario's traditional retail node. The REIT paid approximately $16.4 million for the property. This acquisition and the acquisition of Crossing Bridge Square, as noted below, were satisfied by a new one-year bank credit facility of $14.0 million bearing interest at a rate equal to the Canadian Imperial Bank of Commerce ("CIBC") prime rate plus 1.50% for the initial six months and the CIBC prime rate plus 2.00% for the remainder of the term, with the balance paid from the REIT's available cash on hand.

- *Thunder Centre*

On February 14, 2012, the REIT completed the acquisition of Thunder Centre, an existing 168,087 square foot power centre comprised of two big-box stores and five multi-tenant retail strips located in the primary retail node of Thunder Bay, Ontario. The REIT paid approximately $38.2 million for the property and was funded by the assumption of a first mortgage on the property in the amount of $14.8 million, which was further increased by $4.7 million for a total first mortgage of $19.5 million. The mortgage matures in July 2017 and has a contractual interest rate of 4.78% per annum. The balance of the purchase price was funded from the REIT's available cash on hand. An above market interest rate adjustment of $1.1 million has been included in the determination of the total cost of this acquisition.

- *St Clair Beach Towne Centre*

On February 14, 2012, the REIT completed the acquisition of St. Clair Beach Towne Centre, an existing 40,088 square foot centre comprised of two buildings located in the Windsor, Ontario suburb of Tecumseh. The REIT paid approximately $11.6 million for the property and was funded by the assumption of a first mortgage on the property in the amount of $4.4 million, which was further increased by $1.85 million for a total first mortgage of $6.25 million. The mortgage matures in July 2017 and has a contractual interest rate of 4.60% per annum. The balance of the purchase price was funded from the REIT's available cash on hand. An above market interest rate adjustment of $0.3 million has been included in the determination of the total cost of this acquisition.

- *Crossing Bridge Square*

On February 14, 2012, the REIT completed the acquisition of Crossing Bridge Square, an existing 45,913 square foot open-air centre located in Stittsville, Ontario. The centre consists of a retail strip centre and two free-standing pad sites. The REIT paid approximately $11.2 million for the property. The acquisition was funded as noted above under the acquisition of King George Square.

- *Manning Crossing*

On February 14, 2012, the REIT completed the acquisition of Manning Crossing, an existing 64,528 square foot centre comprised of a retail strip and five restaurant pads located in Edmonton, Alberta. The REIT paid approximately $20.9 million for the property and was funded by the assumption of an existing first mortgage on the property for $4.65 million that matures in August 2014 and has a contractual interest rate of 6.59% per annum; a newly acquired second mortgage on the property for a total of $8.0 million that matures in February 2017 and has a contractual interest rate of 4.02% per annum; with the balance funded from the REIT's available cash on hand. An above market interest rate adjustment of $0.3 million has been included in the determination of the total cost of this acquisition.

- *Plaza des Seigneurs*

On February 1, 2012, the REIT completed the acquisition of Plaza des Seigneurs, an existing 20,833 square foot open-air centre anchored by necessity-based tenants located in Terrebonne, Québec. The REIT paid approximately $4.05 million for the property with $2.25 million funded through a new five-year mortgage that bears interest at 3.5% per annum, with the balance paid from the REIT's available funds on hand.

5. NOTE RECEIVABLE

The note receivable was fully repaid by its maturity date, May 31, 2013 by way of repayments totaling $6.2 million received from League Holdings Corporation, a related party (see note 23), representing repayment of the principal and interest accrued on the note receivable. During the year ended December 31, 2013 the REIT received interest on the note receivable totaling $0.2 million (2012 - $1.0 million).

6. OTHER ASSETS

The major components of other assets are as follows:

As at		**December 31, 2013**		December 31, 2012
Prepaid realty taxes and insurance	**$**	**927,715**	$	767,331
Restricted cash - amounts held in escrow		**2,638,377**		1,892,703
Deposits on acquisitions		**-**		200,000
Deferred acquisition costs		**155,518**		404,813
Prepaid expenses and other		**792,781**		843,730
	$	**4,514,391**	$	4,108,577

Cash is considered restricted when it is held in escrow and is only available for use for specific purposes. The permitted use of restricted cash is to lease up vacant space and fund certain future capital expenditures for the REIT's income producing property portfolio.

Deposits on acquisitions include first and second deposits made on income producing properties which have not closed as of the date of these consolidated financial statements. On the date of closing the deposited amount will be deducted from the funds due on closing, or returned with interest if the REIT does not complete the acquisition.

Prepaid expenses and other include general trust expenses paid in advance and other deferred amounts.

7. ACCOUNTS RECEIVABLE

As at		**December 31, 2013**		December 31, 2012
Rents receivable	**$**	**1,261,870**	$	457,436
Unbilled recoveries and other receivables		**1,731,423**		1,041,075
		2,993,293		1,498,511
Allowance for doubtful accounts		**(270,652)**		(55,377)
	$	**2,722,641**	$	1,443,134

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. During the year ended December 31, 2013 the REIT wrote off receivables totaling $0.3 million (2012 – $0.04 million).

See Note 22 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

8. MORTGAGES PAYABLE

As at	**December 31, 2013**	December 31, 2012
Mortgages payable	**$ 282,225,144**	$ 224,583,939
Unamortized above market interest rate adjustments	**3,510,297**	3,379,779
Unamortized commitment and other fees	**(1,584,881)**	(1,524,171)
	$ 284,150,560	$ 226,439,547
Non-current	**$ 250,046,544**	$ 215,528,319
Current	**34,104,016**	10,911,228
	$ 284,150,560	$ 226,439,547

Scheduled repayments of secured debt are as follows:

	Principal instalments	Principal maturing	Total
2014	$ 8,671,633	$ 24,870,435	$ 33,542,068
2015	8,142,036	32,267,407	40,409,443
2016	7,139,252	28,376,013	35,515,265
2017	5,152,734	81,111,316	86,264,050
2018	2,407,464	35,029,628	37,437,092
Thereafter	6,397,378	42,659,848	49,057,226
Contractual obligations	$ 37,910,497	$ 244,314,647	$ 282,225,144

Mortgages payable are secured by the income producing properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 2.43% and 6.02% per annum (December 31, 2012 – 3.58% and 8.53%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2012 – 3.40% and 7.00%). The REIT's weighted average effective interest rate is 4.34% per annum (December 31, 2012 – 4.50%). The total carrying value of the properties pledged as security is $522.8 million (December 31, 2012 - $399.0 million).

During the year ended December 31, 2013 the following mortgages were obtained:

In August 2013, upon the acquisition of Cobblestone Shopping Centre, the REIT assumed a mortgage for $6.4 million on the property. The mortgage matures in January 2018, has a contractual rate of interest of 6.01% per annum, and a remaining amortization period of approximately 14 years. The REIT will receive a monthly allowance from the vendor of $9,850 for the remaining term of the assumed mortgage. In addition, the REIT acquired a $3.0 million vendor take back mortgage with a contractual interest rate of 2.40% payable in arrears upon maturity of the mortgage in January 2018.

In May 2013, upon the acquisition of Marcel Laurin, the REIT acquired a mortgage for $22.0 million on the property. The mortgage matures in June 2023, has a contractual rate of interest of 3.84% per annum, and an amortization period of 25 years.

In May 2013, upon the acquisition of Repentigny Shopping Centre, the REIT acquired a mortgage for $5.65 million on the property. The mortgage matures in May 2018, has a contractual rate of interest of 3.43% per annum.

In April 2013, upon the acquisition of Mariner Square Shopping Centre, the REIT assumed a mortgage for $14.6 million on the property. The REIT was granted a $1.1 million reduction in the purchase price as an above market interest rate adjustment for this mortgage. The mortgage matures in November 2017, has a contractual rate of interest of 5.74% per annum, and a remaining amortization period of approximately 19 years.

In March 2013, upon the acquisition of Saint Remi Shopping Centre, the REIT acquired a mortgage for $11.55 million on the property. The mortgage matures in April 2020 and has a contractual rate of interest of 3.76% per annum.

In March 2013, upon the acquisition of Sorel Shopping Centre, the REIT acquired a mortgage for $4.2 million on the property. The mortgage matures in April 2020 and has a contractual rate of interest of 3.67%.

9. CONVERTIBLE DEBENTURES

As at		**December 31, 2013**		December 31, 2012
8.0% Convertible debenture	**$**	**28,395,933**	$	27,950,000
6.0% Convertible debenture		**34,118,941**		33,990,000
5.5% Convertible debenture		**22,872,867**		-
Debentures, excluding convertible feature		**85,387,741**		61,940,000
Fair value of convertible features at issuance		**1,460,000**		1,310,000
Accumulated fair value (gain) loss on convertible feature		**(1,430,000)**		300,000
Convertible feature		**30,000**		1,610,000
Issue costs		**(4,898,664)**		(3,733,260)
Accumulated amortization of issue costs		**1,833,524**		901,370
Issue costs, net		**(3,065,140)**		(2,831,890)
	$	**82,352,601**	$	60,718,110

In March, 2011, the REIT issued $28,750,000 of 8.0% convertible unsecured subordinated debentures (the "8.0% convertible debentures") due March 31, 2016. The 8.0% convertible debentures are convertible into REIT units at $8.80 per unit at the holder's option at any time on or after March 31, 2014. On or after March 31, 2014 and prior to March 31, 2015, the 8.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2015, the 8.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 8.0% convertible debentures as at December 31, 2013 is $20,000 (December 31, 2012 - $1,140,000).

In September, 2012, the REIT issued $34,500,000 of 6.0% convertible unsecured subordinated debentures (the "6.0% convertible debentures") due September 30, 2017. The 6.0% convertible debentures are convertible into REIT units at $10.35 per unit at the holder's option at any time on or after September 30, 2015. On or after September 30, 2015 and prior to September 30, 2016, the 6.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2016, the 6.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 6.0% convertible debentures as at December 31, 2013 is $10,000 (December 31, 2012 - $470,000).

In March, 2013, the REIT issued $23,000,000 of 5.5% convertible unsecured subordinated debentures (the "5.5% convertible debentures") due March 31, 2018. The 5.5% convertible debentures are convertible into REIT units at $10.25 per unit at the holder's option at any time on or after March 31, 2016. On or after March 31, 2016 and prior to March 31, 2017, the 5.5% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017, the 5.5% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 5.5% convertible debentures as at December 31, 2013 is nil.

10. CREDIT FACILITIES

As at		**December 31, 2013**		December 31, 2012
Credit facilities	**$**	**31,000,000**	$	7,500,000
Issue costs		**238,975**		692,775
Accumulated amortization of issue costs		**(34,778)**		(470,715)
Issue costs, net		**204,197**		222,060
		30,795,803		7,277,940
Non-current	**$**	**30,795,803**	$	-
Current		**-**		7,277,940
	$	**30,795,803**	$	7,277,940

During the year ended December 31, 2013, the REIT extended and amended its revolving credit facility (the "Credit Facility"), provided by a consortium of Canadian chartered banks. The Credit Facility has a formula-based current maximum credit limit of $40.0 million, expandable up to $60 million with the securitization of additional unencumbered properties, and bears interest at the bank's prime rate (3.0% as at December 31, 2013) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum. As at December 31, 2013, the Credit Facility was secured by the King George Square, Crossing Bridge Square, Centre Village Shopping Centre, Elgar Place and Centuria Urban Village properties with a formula-based amount available under the facility of $38.7 million with $31.0 million in outstanding draws (December 31, 2012 - $7.5 million outstanding draws). The Credit Facility matures in March 2015 and is renewable annually thereafter. The carrying value of properties pledged as security is $62.6 million (December 31, 2012 - $50.5 million).

11. EXCHANGEABLE LP UNITS

Exchangeable LP units represents 157,500 units (December 31, 2012 – 287,500 units) of 137th Avenue LP, a wholly owned subsidiary, issued to the participating third party vendor in exchange for a property acquired by 137th Avenue LP. The units are exchangeable on a one-for-one basis, at the option of the holder, into units of the REIT. During the year ended December 31, 2013 the REIT issued 130,000 REIT units in exchange for the same number of exchangeable LP units.

The exchangeable LP units are measured at fair value using the quoted market price of the underlying REIT units.

The holder of the exchangeable LP units is entitled to receive distributions on a per unit basis equal to the amount that is paid to the holders of REIT units. Under IFRS, these distributions are considered interest expense and are included in financing costs in the consolidated statements of comprehensive income.

12. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the year ended December 31, 2013 were $56.6 million (2012 - $43.0 million). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the year ended December 31, 2013 of $17.1 million (2012 - $12.9 million), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at December 31, 2013, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 37,253,381	$ 116,802,115	$ 106,201,163

13. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Year ended December 31, 2013	2012
Proxy contest	**$ 1,911,443**	$ -
Board transition	**250,604**	-
Executive severance payments	**635,384**	-
Internalization costs	**178,775**	-
Abandoned acquisition costs	**369,498**	48,444
Prepayment penalty on early debt extinguishment	**-**	100,000
TSX listing fees	**-**	300,000
Total other transaction costs	**$ 3,345,704**	$ 448,444

14. FAIR VALUE GAINS (LOSSES)

The components of fair value gains are as follows:

	Year ended December 31, 2013	2012
Income producing properties	**$ (6,693,830)**	$ 18,464,181
Note receivable	**-**	(193,977)
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	**176,000**	(55,000)
Unit purchase warrants	**-**	(418,546)
Convertible debentures	**1,730,000**	(420,000)
Exchangeable LP units	**463,500**	(158,125)
Total fair value gains (losses)	**$ (4,324,330)**	$ 17,218,533

15. EARNINGS PER UNIT

The table below presents the net income per unit and weighted average units outstanding calculations. Only dilutive elements have been included in the calculation of diluted per unit amounts.

		Year ended December 31,		
		2013		2012
Numerator				
Net income and comprehensive income - basic	**$**	**4,195,221**	$	27,823,978
Contribution from dilutive instrument		**(324,389)**		3,723,800
Net income and comprehensive income - diluted	**$**	**3,870,832**	$	31,547,778
Denominator				
Weighted average units outstanding - basic		**25,731,319**		19,164,337
Dilutive convertible units		**223,333**		4,620,119
Weighted average units outstanding - diluted[(1)]		**25,954,652**		23,784,456

(1) The calculation of diluted per unit amounts for the year ended December 31, 2013 and 2012 exclude convertible units when their inclusion is anti-dilutive.

Earnings per unit - basic	**$**	**0.16**	$	1.45
Earnings per unit - diluted	**$**	**0.15**	$	1.33

16. UNITHOLDERS' EQUITY

(a) Public offerings

On December 28, 2012, Partners REIT filed a prospectus with Canadian securities regulators to offer 2,925,000 units at $7.70 per unit by way of a public offering closing January 10, 2013. The offering also granted an over-allotment option of up to an additional 438,750 units at $7.70 per unit on the same terms and conditions as the offering. Partners REIT issued a total 3,363,750 units under the offering for total raised capital of $25.9 million and incurred issue costs of $1.5 million.

(b) Distributions

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.04167 per unit, representing an annualized distribution of $0.50 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Board of Trustees (the "Trustees"). The REIT's Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the REIT's Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act.

(c) Distribution reinvestment plan

The REIT has a Distribution Reinvestment and Optional Unit Purchase Plan ("the Plan") to enable Canadian resident unitholders to acquire additional units of the REIT:

(i) through the reinvestment of regular monthly distributions on all or any part of their units; and

(ii) once enrolled in the Plan, through optional cash payments subject to a minimum of $1,000 per month and a maximum of $12,000 per calendar year.

Units issued in connection with the Plan are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 5% of each cash distribution.

The REIT has reserved for issuance with the TSX 750,000 units to accommodate the issuance of units under the Plan.

(d) Outstanding units

As at	December 31, 2013			December 31, 2012		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**22,310,533**	**$**	**168,392,882**	7,765,603	$	70,108,603
Units issued:						
Distribution reinvestment plan	**174,711**		**1,196,547**	87,299		676,253
Alternate compenation plan	**9,806**		**64,900**	6,493		51,002
Exchangeable LP units (Note 11)	**130,000**		**922,000**	-		-
Public offerings	**3,363,750**		**25,900,875**	6,159,812		45,704,571
Private offering	**-**		**-**	7,393,833		51,165,326
Incentive unit option plan	**-**		**-**	12,500		92,250
Deferred rights obligation	**-**		**-**	259,993		2,222,940
Warrant exercise	**-**		**-**	625,000		5,031,250
Unit issue costs	**-**		**(1,485,852)**	-		(6,659,313)
	25,988,800	**$**	**194,991,352**	22,310,533	$	168,392,882

17. SUPPLEMENTAL CASH FLOW INFORMATION

The following table outlines supplemental cash flow information and the net change in the REIT's working capital:

	Year ended December 31,			
		2013		2012
Supplemental				
Interest paid	**$**	**17,730,298**	$	12,488,163
Net change in working capital				
Net change in accounts receivable	**$**	**(1,279,507)**	$	(574,401)
Net change in other assets		**(405,814)**		417,737
Net change in accounts payable and other liabilities		**310,274**		4,884,667
Net change in distributions payable		**(114,281)**		782,685
	$	**(1,489,328)**	$	5,510,688

18. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time that the options were granted (on a non-diluted basis). Options issued by the REIT vest evenly over three years and expire five years after the grant date.

Incentive unit-based compensation is comprised of the following:

	Year ended December 31, 2013			Year ended December 31, 2012		
	Units		**Weighted Avg Exercise Price**	Units		Weighted Avg Exercise Price
Options outstanding, beginning of period	**522,000**	**$**	**7.19**	237,500	$	7.36
Options granted	**-**		**-**	364,500		7.30
Options exercised	**-**		**-**	(12,500)		7.00
Options canceled	**(57,500)**		**7.16**	(67,500)		8.39
	464,500	**$**	**7.20**	522,000	$	7.19
Options exercisable, end of period	**208,166**	**$**	**7.15**	62,096	$	7.00

Under IFRS, the options are not considered to be equity instruments, and as such the unexercised, outstanding options are included in accounts payable and other liabilities in the consolidated statements of financial position. IAS 39 requires the liability to be measured at fair value. Changes to the fair value are recognized in profit or loss such that the cumulative expense reflects the amount amortized to date over the vesting period if the amortized amount was otherwise re-calculated at the end of the reporting period.

As at December 31, 2013, the fair value of the incentive unit-based compensation liability is $79,000 (December 31, 2012 – $215,000). During the year ended December 31, 2013 the REIT recorded $40,000 of employee compensation expense (2012 – $107,000).

The weighted average remaining contractual life at December 31, 2013 for the exercisable unit options is approximately 2.7 years (December 31, 2012 – approximately 3.2 years).

(b) Alternate compensation plan ("ACP")

Under the ACP, Trustees will have the option to have their fees ("Trustees Fees") paid in units of the REIT. The number of units will be equivalent to the cash value of the Trustees Fees elected by the Trustee to be paid in units. The maximum number of units reserved for issuance under the ACP is 1% of the issued and outstanding units and the maximum number of units reserved under the ACP and all unit-based compensation plans of the REIT shall not exceed 10% of the REIT's issued and outstanding units at any given time.

The issue price of the units under the ACP is the closing price of the units on the market on the last trading date preceding the date of issuance to the Trustees. If there is no trading on that date, the issue price is the closing price on the next previous day on which trading took place preceding the date of issuance to the Trustees or such other amount as determined by the Board and permitted by the TSX upon which the units are from time to time listed for trading and any other applicable regulatory authority.

The ACP became effective April 13, 2012. For the year ended December 31, 2013, the number of units issued to the Trustees under the ACP is 9,805 units at a weighted average price of $6.62 per unit.

19. INCOME TAXES

One of the REIT's corporate entities, Charter Realty Holdings Ltd. (the "Company") does not have current taxes payable because it has a sufficient non-capital loss carry-forward balance from previous years to apply against any taxable income in the current year. All of the other corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable. The REIT also has a partnership contained within the structure, 137th Ave LP (the "LP"). For Canadian tax purposes, this entity is a flow-through entity and any income or loss of the partnership allocated to its partners (in this case, the REIT and 137th Avenue GP Inc., a wholly-owned incorporated subsidiary of the REIT). As previously discussed, the REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian income tax payable has been made.

20. CAPITAL MANAGEMENT

The REIT actively manages both its debt capital[1] and its equity capital with the objectives of ensuring that the REIT can continue to grow and operate its business.

The real estate industry is capital intensive by nature. As a result, debt capital is a very important aspect in managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Part of the REIT's objectives in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. As well, given the importance of debt capital to real estate entities, the REIT monitors its debt-to-gross book value ratio; a ratio that has become a common industry metric reviewed by analysts, unitholders and others within the industry. The REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust; however the REIT's bank credit facility imposes a restriction on the REIT's debt-to-gross book value ratio, at a maximum of 75%.

The debt-to-gross book value ratio is measured as the REIT's total debt, including mortgages payable, corporate secured debt, debentures and bank credit facility, divided by the gross book value of its assets.

At December 31, 2013, the REIT is in compliance with its debt-to-gross book value ratio at 66.7%, (December 31, 2012 – 62.4%), which is calculated as follows:

As at	**December 31, 2013**	December 31, 2012
Debt		
Mortgage principal	**$ 282,225,144**	$ 224,583,939
Debentures, excluding fair value of convertible feature at issuance	**85,387,741**	61,940,000
Credit facilities	**31,000,000**	7,500,000
	$ 398,612,885	$ 294,023,939
Gross Book Value of Assets		
Original cost of income producing properties [2]	**$ 585,677,396**	$ 453,054,833
Book value of all other assets	**7,237,032**	13,341,154
Deferred financing fees	**4,854,218**	4,578,121
	$ 597,768,646	$ 470,974,108
Debt-to-Gross Book Value	**66.7%**	62.4%
Debt-to-Gross Book Value Excluding Debentures	**52.4%**	49.3%

(1) Debt capital refers to secured debt, debenture and bank credit facility excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.

(2) Original cost of income producing properties represents the historical costs incurred to acquire the REIT's properties.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the REIT's assets and liabilities were determined as follows:

(a) *Current assets and liabilities*

The carrying amounts for cash, accounts receivable, other assets, bank indebtedness, accounts payable and other liabilities, credit facilities and distributions payable approximate their fair values due to the short-term nature of these items.

(b) *Mortgages payable*

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.23% and 4.87% that reflect current market conditions for instruments of similar term and risk. The fair value of the secured debt is approximately $286.7 million at December 31, 2013 (December 31, 2012 - $235.3 million).

Assets and liabilities measured at fair value in the statements of financial position are classified based on a three-level hierarchy that reflects the significance of the inputs used when determining the fair value as follows:

- Level 1 - determined by reference to quoted prices in active markets for identical assets and liabilities;
- Level 2 - determined by using inputs other than the quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - determined using inputs that are not based on observable market data.

The fair value hierarchy of financial instruments measured at fair value is as follows:

Year ended December 31, 2013	Level 1	Level 2	Level 3
Income producing properties	$ -	$ -	$ 588,391,005
Embedded derivatives	-	30,000	-
Deferred unit-based compensation liability	-	79,000	-
Exchangeable LP units	-	842,625	-
Total	$ -	$ 951,625	$ 588,391,005

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above.

22. RISK MANAGEMENT

In the normal course of business, the REIT is exposed to a number of risks that can materially affect its operating performance.

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under the Credit Facility which has a floating rate of interest. An increase in interest rates would increase the interest cost of the REIT's Credit Facility having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding balance of the Credit Facility at December 31, 2013, a 1% increase or decrease in the prime rate would have an impact of $310,000 on the REIT's annual interest expense (December 31, 2012 – $115,000).

The REIT structures its fixed rate financing so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2013 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants. Refer to Note 6 for details of accounts receivable.

(c) Liquidity risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's Credit Facility. Debt repayment obligations (see Notes 7 and 8) are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT attempts to mitigate its liquidity risk by staggering the maturities of its debt. As well, the REIT's distributions are made at the discretion of the REIT's Trustees. Finally, the REIT doesn't enter into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisition.

The following table shows the contractual cash flows (including principal and interest) on all of the REIT's non-derivative financial liabilities:

	2014	2015	2016	2017	2018	Thereafter
Mortgages payable						
Interest	$ 12,184,206	10,903,893	8,670,233	$ 5,258,219	$ 2,299,005	$ 5,455,569
Principal payments	8,671,633	8,142,036	7,139,252	5,152,734	2,407,464	6,397,377
Balances due on maturity	24,870,436	32,267,407	28,376,013	81,111,316	35,029,628	42,659,848
Debentures						
Interest	5,635,000	5,635,000	3,910,000	2,817,500	316,250	-
Balances due on maturity	-	-	28,750,000	34,500,000	23,000,000	-
Credit facilties						
Interest	1,258,000	-	-	-	-	-
Balances due on maturity	-	31,000,000	-	-	-	-
Accounts and distributions payable and other liabilities	12,472,923	-	-	-	-	-
Total	$ 65,092,198	$ 87,948,336	$ 76,845,498	$ 128,839,769	$ 63,052,347	$ 54,512,794

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $5.8 million in annual base rent, or 14.7% of the REIT's total base rental revenue.

23. RELATED PARTY TRANSACTIONS

IAS 24 – Related Party Disclosures requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences the other party. Balances and transactions between the REIT and its subsidiaries, which are related parties of the REIT, have been eliminated on consolidation and are not disclosed in this note.

The REIT entered into related party transactions with IGW Public LP ("IGW Public"), and its subsidiary, LAPP Global Asset Management Corp. ("LAPP"), which were the REIT's major unitholder and asset manager, respectively. Effective November 28, 2013, IGW Public disposed of its holdings of REIT units to McCowan and Associates ("McCowan"). Effective December 27, 2013 McCowan also purchased LAPP's interest in the management agreement with the REIT.

The REIT also entered into a related party transaction with League Holdings Corporation ("LHC"), a subsidiary of League Assets LP. LHC and League Assets LP were related to the REIT by virtue of certain previous directors and key management personnel of the REIT having a controlling ownership interest in these entities.

Transactions between the REIT and related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) Management agreement with LAPP

Pursuant to the management agreement between LAPP and the REIT, LAPP provided the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to: (i) 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and (ii) 0.25% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, if the "adjusted book value" of the REIT's assets is greater than $1 billion, and an acquisition fee equal to: (i) 0.50% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is less than or equal to $1 billion; and (ii) 0.40% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is greater than $1 billion. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, plus the add-back of accumulated amortization of deferred costs. In addition, the agreement allows for an incentive fee of 15% of funds from operations in excess of $0.70 per unit. The hurdle of funds from operations of $0.70 per unit increases by 1.5% per year.

In accordance with the management agreement, LAPP was providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows and while LAPP is the manager of the REIT, LAPP will provide additional executives to the REIT in order to fulfill its obligations under the management agreement as recommended by the trustees and agreed to by the trustees and LAPP. All costs associated with the executives and personnel shall be borne by LAPP. In accordance with the terms of the management agreement, LAPP is required to consult with the independent trustees with regard to compensation decisions for executives who devote substantially all of their time to the business of the REIT. In the event that any executive providing services to the REIT ceases to do so for any reason, LAPP will replace such individual with another employee with similar qualifications and experience.

Under the terms of the management agreement with LAPP, the REIT incurred the following fees:

	Year ended December 31,	
	2013	2012
Acquisition fees	**$ 575,605**	$ 880,354
Asset management fees	**1,688,736**	1,037,466
Property management and accounting fees	**646,249**	451,764
Leasing commissions	**-**	237,728
	$ 2,910,590	$ 2,607,312

The acquisition fees and leasing commissions were capitalized to income producing properties in the consolidated statements of financial position, in accordance with IAS 40 – *Investment Properties*. The asset management fees were charged to general and administrative expenses and the property management and accounting fees were charged to operating expenses in the consolidated statements of comprehensive income.

(b) Management agreement with McCowan

Effective December 27, 2013 McCowan assumed LAPP's interest in the management contract for $1.5 million. Under the management contract, McCowan is responsible to arrange for the provision of all necessary management services to the REIT by competent employees, including, as needed, by seconding employees of the former asset manager. On February 15, 2014, upon approval of the internalization plan by the Trustees, McCowan terminated the management agreement and received reimbursement by the REIT of the $1.5 million purchase price plus management fees outstanding.

Under the terms of the management agreement with McCowan, the REIT incurred the following fees:

	Year ended December 31,	
	2013	2012
Asset management fees	**$ 34,353**	$ -
Property management and accounting fees	**5,685**	-
	$ 40,038	$ -

(c) Other related party transactions

On June 30, 2012, the REIT exercised an option to sell mortgage assets to LHC for $7.9 million based on third party valuations. In exchange for purchasing the mortgage assets, the REIT accepted a full recourse note receivable from LHC, fully guaranteed by LAC, bearing interest from September 15, 2012 at 12% and having a maturity date of May 31, 2013.

Full repayments on the note receivable have been made to the REIT, as disclosed in Note 5.

(d) Related party balances

Amounts owed from the REIT to related parties at December 31, 2013 are $15,919 (December 31, 2012 - $36,727). This amount has been classified in accounts payable and other liabilities, and consists of accrued trustee payroll and accrued asset management fees.

Amounts owed to the REIT from related parties at December 31, 2013 are $40,038 (December 31, 2012 – $6.0 million). This amount has been classified in accounts receivable, and consists of expense reimbursements. During the year ended December 31, 2013 total advances of $3.2 million were made to LAPP and repaid or offset against fees subsequently earned.

(e) Compensation of key management and Trustees

During the year, the REIT changed its Board of Trustees. The REIT's current independent trustees include: Marc Charlebois, Allen Weinberg and Joseph Feldman. During the year, the REIT's key management personnel include: Chief Executive Officer, Patrick Miniutti, Chief Financial Officer, Heather Routly (until November 22, 2013), President, Ed Boomer (until November 22, 2013) and Chief Operating Officer, Peter Morris. The remuneration of the REIT's key management personnel and trustees was as follows:

	Year ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
	Trustees		**Key Management**	
Compensation and benefits	**$ 185,165**	$ 184,639	**$ 1,440,244**	$ 671,237
Deferred unit-based compensation	**-**	-	**40,000**	107,000
	$ 185,165	$ 184,639	**$ 1,480,244**	$ 778,237

24. SUBSEQUENT EVENTS

(a) Acquisition of four Ontario properties

On December 18, 2013, the REIT entered into an agreement to acquire four properties in Ontario for a purchase price of approximately $109 million for total gross leasable area of 650,000 square feet. On February 6, 2014, the REIT amended and restated the agreement to include a vendor guarantee on annualized NOI of $7.2 million. The sale is expected to close in March or April 2014 upon final due diligence.

(b) Internalization of management

Effective February 15, 2014, the REIT terminated its management agreement with McCowan for $1.5 million and completed the internalization of its management. Under the internalization plan, The REIT's head office, including the executive, asset management, and financial functions, were relocated to Barrie, Ontario.

(c) Changes to Senior Management

On February 11, 2014, the REIT announced the appointments of Ron McCowan as interim Chief Executive Officer and Derrick West as Chief Financial Officer. In conjunction with these appointments, the REIT also announced the departure of Patrick Miniutti, the REIT's former Chief Executive Officer.

On February 14, 2014, the REIT announced the appointment of Jane Domenico as Chief Operating Officer. The REIT also announced that Marc Charlebois had been appointed to the Board of Trustees.